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COUNTRY ANALYSIS BRIEFS

Oman

Last Updated: March 2006

Background

Oman's real gross domestic product (GDP) grew by 4.6 percent in 2005.

Oman has been ruled by Sultan Qaboos bin Said al Said since 1970, when he deposed his father in a bloodless coup. All power is concentrated in the hands of the Sultan, who also holds the top positions in the finance, defense, and foreign affairs ministries. Rules governing the succession to the throne were formalized in the 1996 Basic Law. There is no Omani legislative assembly, though there are two consultative bodies called the Majlis al-Dawla and the Majlis al-Shura. Together, the two chambers form the Council of Oman. The Majlis al-Dawla is appointed, while the Majlis al-Shura is elected. The last election was held in October 2003.

Oman's macroeconomic environment currently is strong, despite recent declines in oil production. Real GDP growth was 4.6 percent in 2005 and is projected to fall slightly to 4.4 percent in 2006. Inflation was only 1.3 percent for 2005.

Oman continues to be heavily dependent on oil revenues, which account for around 75 percent of the country's export earnings and almost 40 percent of its gross domestic product (GDP). Prompted by the maturation of its oil fields and the volatility of oil prices, the Omani government has made diversifying the country's economy a top policy priority. In the 1980s, this effort hinged on developing a domestic manufacturing base, but more recent initiatives have focused on the exploitation of Oman's other natural resources, particularly its natural gas reserves. Oman has large mineral and metal deposits, including silica, dolomite, copper, and gold. In September 2003, the government announced that it was reviving a five-year-old plan to build a $2.5 billion aluminum smelter, which is to begin operation in 2007.

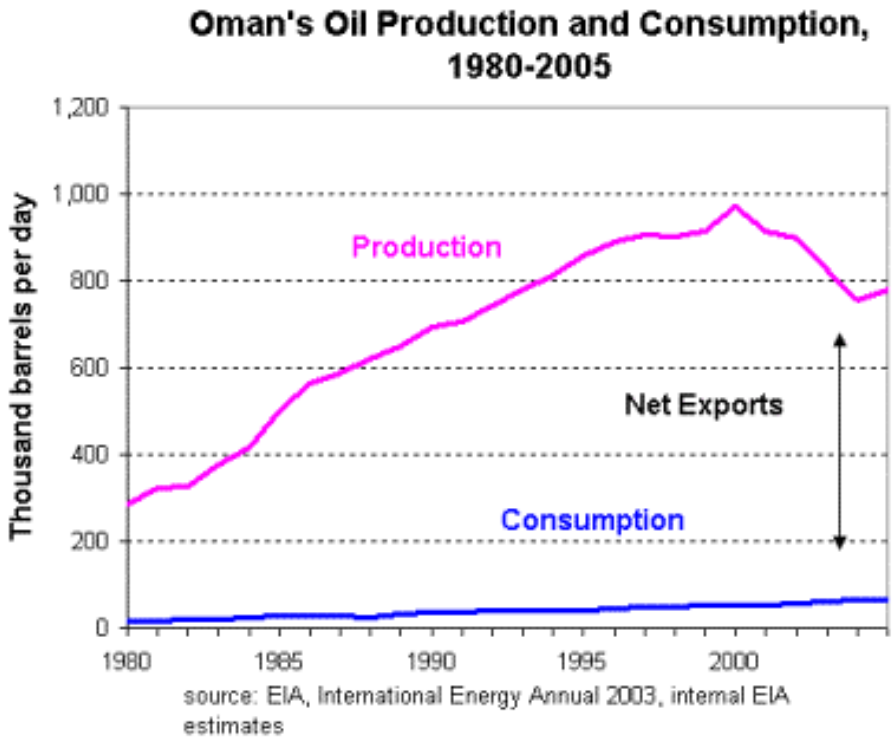
Oman's efforts to diversify the economy also include "Omanization," a program designed to increase the percentage of Omani citizens working in the private sector. At present, Omani nationals constitute only about 15 percent of private sector employment. The government also has continued to attempt to attract foreign investment, particularly in light industry, tourism, and electric power generation. Foreign investment incentives include a 5-year tax holiday for companies in certain industries, an income tax reduction for publicly held companies with at least 51 percent Omani ownership, and soft loans to finance new and existing projects. The process of privatizing some state-owned industries is to be accelerated under a decree issues in July 2004, which will allow foreign ownership up to 100% in power generation and water.

Oman became a member of the World Trade Organization (WTO) in October 2000, and the reforms associated with membership have helped to further reduce the barriers to entry faced by foreign firms. Movement continues towards an eventual customs union amongst the Gulf Co-operation Council (GCC) states.

Oil

Oman's oil production rose in 2005, reversing several years of declines.

In many ways, Oman is atypical of Persian Gulf oil producers. Oman's petroleum deposits were discovered in 1962, decades after most of those of its neighbors. Moreover, Oman's oil fields are generally smaller, more widely scattered, less productive, and more costly per barrel than in other Persian Gulf countries. The average well in Oman produces only around 400 barrels per day (bbl/d), about one-tenth the volume per well of those in neighboring countries. To compensate, Oman uses a variety of enhanced oil recovery (EOR) techniques. While these raise production levels, they increase the cost.



Oman has proven recoverable oil reserves of 5.5 billion barrels, the bulk of which are located in the country's northern and central regions. The largest and traditionally most reliable fields are in the north. These fields, which include Yibal (the biggest), Fahud, al-Huwaisah, and several others, are now mature and face future declines in production. Oman's total (i.e. including condensate and other liquids) production figure fell sharply from its height of 972,000 bbl/d in 2000 to 754,000 bbl/d in 2004. In 2005, however, output recovered slightly, averaging 780,000 bbl/d, as a result of the introduction of additional EOR measures, as well as increased production of natural gas liquids. If output continues at the present pace and no major new reserves are discovered, Oman has less than 20 years left as a significant oil-exporting nation. Given estimates suggesting that the amount of oil originally in place in Oman is around 50 billion barrels, finding ways to increase recoverability is a top priority. As part of its attempts to expand its reserves, in 2003 Oman signed a six-year contract with Spectrum Energy and Information Technology (UK) to have old seismic studies reprocessed.

Petroleum Development Oman (PDO) is the country's second-largest employer after the government. The company

is a consortium comprised of the Omani government (60 percent), Shell (34 percent), Total (4 percent), and Partex (2 percent). It holds over 60 percent of the country's oil reserves, and accounts for 85 percent of production. PDO's main hopes of stemming its decrease in production involve increasing recovery rates, and discovering and exploiting new fields, particularly in the south. Among its southern prospects, PDO has the most hope for a cluster of fields that includes Ghafeer, Sarmad, and Harweel. PDO estimates there may be reserves of 250 million barrels in these fields, with a potential maximum production level of 100,000 bbl/d. One small new find was reported in July 2004, in the Shuaiba area in northwestern Oman, which tested at 2,600 bbl/d. PDO awarded a contract to Petrofac of the UK in November 2005 for development of natural gas injection infrastructure at the Harweel field.

One of the difficulties that PDO will face in the south is the very large water cut in the fields. A proposed solution is the construction of a 300-kilometer (186-mile) pipeline that will carry water from the south for use in reinjection in the north where "water flooding" already has been used successfully on wells in the Yibal and Bahaja fields.

Despite PDO's dominance, several other companies are involved in Oman's oil sector, particularly in offshore exploration. In March 2002, Total signed an oil and gas exploration and production-sharing agreement with the government, covering a block of around 4,250 square miles off the southeastern coast of Oman. As part of the agreement, Total agreed to spend at least $17 million on exploration over the initial two-year period. Maersk Oil Oman (a subsidiary of Danish energy group AP Moeller), Mitsui & Co. (Japan), Occidental (US) and Hunt Oil (US) have also recently committed to various offshore exploration projects. China's CNPC acquired a foothold in Oman in 2002, taking a 50 percent stake in Block 5 which it acquired after it was relinquished by the Japanese firm Japex. The other major Chinese oil company, Sinopec, acquired two onshore exploration blocks in southern Oman in August 2004.

In June 2005, the Omani government awarded the Mukhaizna field to Occidental Petroleum, after it was relinquished by PDO. Occidental plans to introduce bring production at Mukhaizna from the current level of 10,000 bbl/d to 150,000 bbl/d by 2011, using large-scale steam injection.

Most of Oman's crude oil exports go to Asia, with China, Japan, South Korea, and India the largest importers. China's share of Oman's oil exports slid somewhat in 2005, after rising sharply in the preceding two years, but was still over 200,000 bbl/d.

Refining and Petrochemicals
In 1982, Oman constructed its first refinery, at Mina al-Fahal. The plant's capacity is now 85,000 bbl/d. Output from the facility, which is operated by the state-owned Oman Refinery Company (ORC), is used to meet local product demand. In June 2002, SK Engineering of South Korea was awarded a contract for the construction of a new desulfurization unit at Mina al-Fahal.

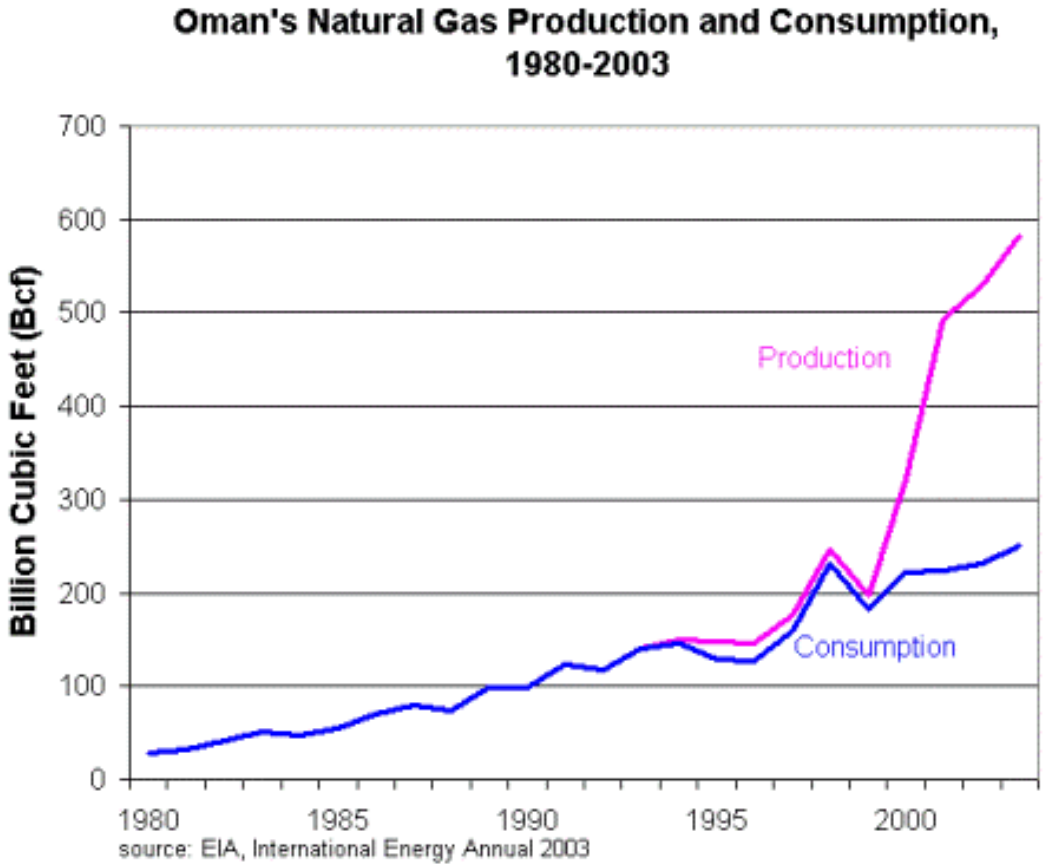
A second refinery is under construction near the northern city of Sohar. Bids for construction of the project were solicited in March 2002, and JGC Corporation (Japan) was awarded the contract in May 2003. To facilitate this, Oman announced plans in April 2003 to build a $1 billion pipeline that will run the 162 miles between the Oman Refinery Company and the new refinery in Sohar. When both the pipeline and the refinery begin operation in mid-2006, the line is to transport a mixed feedstock of crude from PDO and long residue from the Oman Refinery to Sohar for processing. The refinery's capacity is expected to be 51,000 bbl/d of gasoline and 30,000 bbl/d each of diesel and fuel gas. The plant will also have a facility for extracting sulfur from gasoline and a catalytic cracker that will produce gas and gasoline from the leftover elements of the normal refining process.

Oman is pursuing petrochemical projects as a way of diversifying its economy and developing value-added industries. In January 2001, Ferrostaal (Germany) signed a contract with the Omani government to build a methanol plant in Sohar. The deal is estimated to be worth over $420 million and is a joint venture between Ferrostaal, the state-owned Omani Oil Company, and a private Omani group, Omzest. The project will utilize some of the 5 trillion cubic feet (Tcf) of gas that the Omani government has made available to new industries in Sohar. The plant is expected to begin operation in 2005 and has a projected production capacity of 5,000 tons of methanol per day.

Natural Gas

Oman's third LNG train began operation in January 2006, boosting export capacity by 50 percent.

Natural gas has become the chief focus of Oman's economic diversification strategy. Intense exploration has raised proven natural gas reserves from only 12.3 trillion cubic feet (Tcf) in 1992 to its current level of 29 Tcf, according to the *Oil and Gas Journal*. The government is also continuing its aggressive exploration campaign. Most of Oman's reserves are in PDO-owned areas, and the company is Oman's biggest natural gas producer. Most natural gas in Oman is associated with oil, but even that which is non-associated is often located close to the country's oil fields. More than 10 Tcf of Oman's non-associated natural gas is located in deep geological structures, many of which are beneath active oil fields. In 2003, Oman produced 583 billion cubic feet (Bcf) of natural gas.



In addition to the PDO, a number of foreign firms are involved in Oman's natural gas sector. In September 2003, Atlantis, a subsidiary of the Chinese firm Sinochem, began to drill a gas find containing up to 300 Bcf. Gulfstream (now Anadarko) was the first private company to be awarded an onshore gas concession. In August 2001, it received a fixed price gas sales agreement with the government and a 100% concession to develop three gas fields it discovered in Haffar Block 30. Anadarko has already drilled an exploratory well, and hopes to reach an eventual output level of over 80 million cubic feet per day. The field has proven reserves of 300 Bcf.

Novus Petroleum Ltd. (Australia) signed an exploration and production agreement with the Omani government for Blocks 15 and 47 in northern Oman in May 2001. The deal committed Novus to a three-year exploration period, which could be extended depending on the results of the exploration. The blocks form part of the same geological structure as Novus' offshore gas producing field in Block 8, in the Straits of Hormuz. In April 2002, Novus signed another agreement for Block 31. The company also plans to drill the first well in the Iranian-Omani jointly held West Bukha/Hengam gas field in 2006. The field holds an estimated 3 Tcf of gas.

Oman's gas network has been placed under the authority of Oman Gas Company (OGC), set up by the government to oversee the sultanate's gas development program. In April 2001, Oman awarded a contract to operate the country's natural gas transportation and distribution infrastructure for the next five years to Canada's Enbridge and Terasen. The contract includes a provision for technology transfer and training, so operation can be shifted to Omani staff after five years.

In addition to increasing reserves and production, Oman would like to enlarge its existing pipeline network and is using foreign construction companies to do so. In 2002, contractors completed two lines to connect the reserves in

the middle of the country to the coast. One cost $124 million and connects with Sohar. The other cost $180 million and connects with Salalah. There is also an older 500-mile gas trunk line connecting the central fields with power plants and the processing facility of the Oman Liquefied Natural Gas Company (OLNGC), a consortium whose shareholders are the Omani government (51 percent), Shell (30 percent), Total (5.54 percent), and Korea LNG (5 percent), Mitsubishi (2.77 percent), Mitsui & Co. (2.77 percent), Partex (2 percent), and Itochu (0.92 percent).

Oman is one of the participants in the $3.5 billion Dolphin project being led by Dolphin Energy Limited (DEL, a joint-venture between the UAE government, Total, and Occidental Petroleum). The goal is to link the gas networks of Qatar, the UAE, and Oman. Under a deal reached in March 2003, OGC began supplying gas to DEL in the fourth quarter of 2003. An agreement signed in September 2005 calls for the pipeline to reverse direction in 2008, as had previously been anticipated. Oman will then import 200 million cubic feet per day (MMcf/d) from DEL.

Liquefied Natural Gas (LNG) Exports

LNG constitutes a large part of Oman 's plan to develop its natural gas sector, and the country is investing heavily in it. Oman 's LNG program is being coordinated by OLNGC. In 2004, Oman's total LNG production was 324 Bcf.

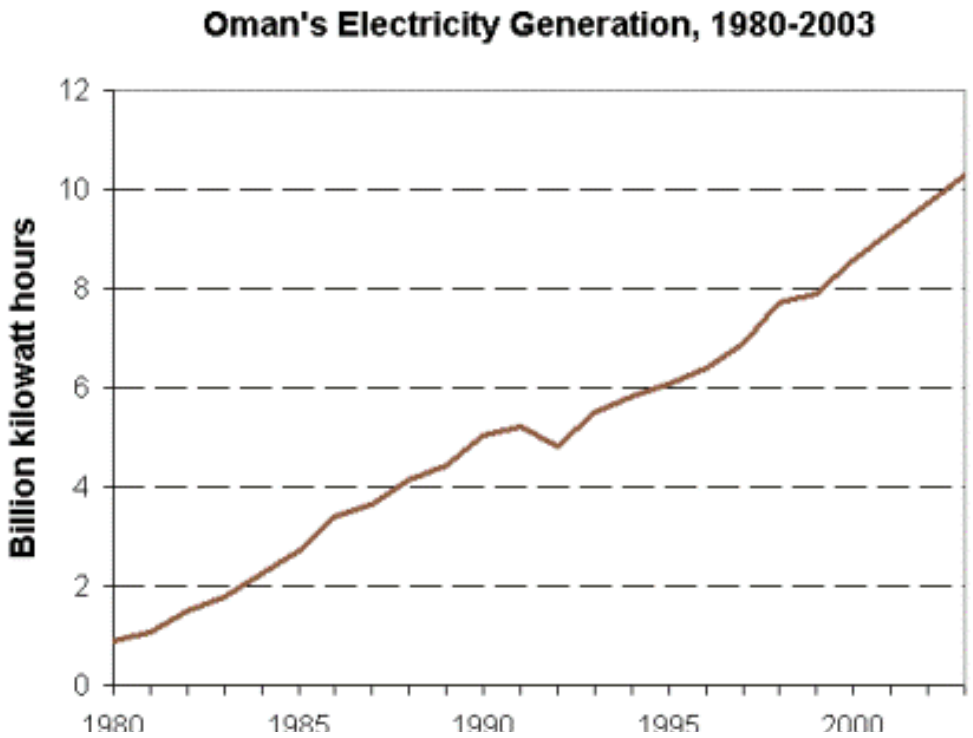
Since 2000, production has been evenly split between between two liquefaction plants (commonly referred to as “trains”) located at Qalhat, each with a capacity of around 170 Bcf per year. A third train with the same capacity began commercial operation in January 2006. It is a joint-venture between the Omani government (56 percent), ONGC (37 percent), and Union Fenosa (7 percent). There have been preliminary discussions with India over the possibility of that country taking an equity stake in a possible fourth train. The viability of the project depends on the number of future customers for the country's gas. At present, the three Qalhat trains are operating at capacity. Union Fenosa has a 20-year contract for half of the third train's output. Other major LNG purchasers are Kogas (South Korea), Daghol Power (India), and Osaka Gas (Japan). Occasional spot cargoes also are delivered to Europe and the United States.

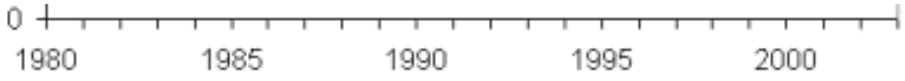
Electricity

Oman has commissioned several privately-owned power plants over the last decade.

In 2003, Oman's installed power generating capacity was estimated at 2.9 gigawatts (GW). With the exception of some very remote villages, the entire country is electrified.

Like other Gulf states, Oman faces growing demand for electricity due to population growth, industrialization, and rising incomes. Consumption is now increasing by 4-5 percent a year, and the government forecasts that electricity demand will be 70 percent higher in 2015 than it is today. To meet this challenge, Oman has allowed the private sector to take on a growing role. The Ministry of Electricity and Water (MEW) continues to play a role as a regulator. The MEW also remains responsible for distribution. In July 2003, the MEW announced that it was setting up a new company, the Transmission and Distribution Company (TRANSCO), that would oversee the generation and supply of electricity in the country. It also announced that it would be selling 65 percent of the new firm to private investors.





source: EIA, International Energy Annual 2003

There have been several notable privatizations. The 1996 sale of a 90-MW power station in Al-Manah to Trachtebel (Belgium) produced the region's first independent power project (IPP). In 2001, a deal to sell a 200-MW plant in Salalah to Dhofar Power Consortium (DPC) went through. It was the first deal in the region to cover generation, transmission, distribution, billing and collection. As part of the contract, DPC is to improve the generation and distribution facilities.

Oman has also agreed to the establishment of a number of new IPPs. In 2000, it agreed to plans to build the 280-MW al-Kamil power plant at al-Sharqiya. Both the Barka and al-Kamil plants are fuelled by on natural gas, and began operation in 2003.

In addition, the U.S. firm Public Services Enterprise Group (PSEG) completed work on a 200-MW integrated power facility in May 2004, which supplies the Dhofar region. A 140-MW plant in Qarn Alam was completed in mid-2004, owned by Bharat Heavy Electrical (BHEL) of India.

Profile

Country Overview

Chief of State	Sultan Qaboos bin Said al Said
Location	Middle East, bordering the Arabian Sea, Gulf of Oman, and Persian Gulf, between Yemen and UAE
Independence	1650 (expulsion of the Portuguese)
Population (2005E)	3,001,583 note: includes 577,293 non-nationals
Languages	Arabic (official), English, Baluchi, Urdu, Indian dialects
Religion	Ibadhi Muslim 75%, Sunni Muslim, Shi'a Muslim, Hindu
Ethnic Group(s)	Arab, Baluchi, South Asian (Indian, Pakistani, Sri Lankan, Bangladeshi), African

Economic Overview

Minister of Commerce and Industry	Maqbool bin Ali Sultan
Currency/Exchange Rate (2/28/2006)	1 US Dollar = 0.38565 Omani Rial
Inflation Rate (2005E)	1.3%
Gross Domestic Product (2005E)	$28 billion
Real GDP Growth Rate (2005E)	4.6%
Exports (2005E)	$16.0 billion
Exports - Commodities	petroleum, reexports, fish, metals, textiles
Exports - Partners (2004E)	China 27.6%, South Korea 17.8%, Japan 12.7%, Thailand 11.7%, UAE 6.6%
Imports (2005E)	$9.4 billion
Imports - Commodities	machinery and transport equipment, manufactured goods, food, livestock, lubricants
Imports - Partners (2004E)	UAE 17.5%, Japan 16.6%, UK 8.5%, Italy 6.4%, Germany 5.2%, US 4.7%, India 4.3%
Current Account Balance (2005E)	$2.4 billion

Energy Overview

Minister of Commerce and Industry	Maqbool bin Ali Sultan
Proven Oil Reserves (January 1, 2006E)	5.5 billion barrels
Oil Production (2005E)	781.8 thousand barrels per day, of which 91% was crude oil.
Oil Consumption (2005E)	67.1 thousand barrels per day
Net Oil Exports (2005E)	714.7 thousand barrels per day
Crude Oil Distillation Capacity (2006E)	85 thousand barrels per day
Proven Natural Gas Reserves (January 1, 2006E)	29.3 trillion cubic feet
Natural Gas Production (2003E)	582.7 billion cubic feet
Natural Gas Consumption (2003E)	250.4 billion cubic feet
Net Natural Gas Exports (2003E)	332.3 billion cubic feet
Recoverable Coal Reserves (2003E)	None
Coal Production (2003E)	None
Coal Consumption (2003E)	None

Electricity Installed Capacity (2003E)	2.9 gigawatts
Electricity Production (2003E)	10.3 billion kilowatt hours
Electricity Consumption (2003E)	9.6 billion kilowatt hours
Total Energy Consumption (2003E)	0.4 quadrillion Btus*, of which Natural Gas (64%), Oil (33%), Coal (0%), Nuclear (0%), Hydroelectricity (0%), Other Renewables (0%)
Total Per Capita Energy Consumption (2003E)	136.9 million Btus
Energy Intensity (2003E)	11,811.4 Btu per $2000-PPP**

Environmental Overview

Energy-Related Carbon Dioxide Emissions (2003E)	24.6 million metric tons, of which Natural Gas (63%), Oil (37%), Coal (0%)
Per-Capita, Energy-Related Carbon Dioxide Emissions (2003E)	8.6 metric tons
Carbon Dioxide Intensity (2003E)	0.7 Metric tons per thousand $2000-PPP**
Environmental Issues	rising soil salinity; beach pollution from oil spills; very limited natural fresh water resources
Major Environmental Agreements	party to: Biodiversity, Climate Change, Climate Change-Kyoto Protocol, Desertification, Hazardous Wastes, Law of the Sea, Marine Dumping, Ozone Layer Protection, Ship Pollution, Whaling signed, but not ratified: none of the selected agreements

Oil and Gas Industry

Organization	Petroleum Development Oman Ltd. (PDO) controls all oil resources. PDO is a partnership between the Omani government (60%), Royal Dutch/Shell (34%), Total (4%), and Partex (2%). Oman Oil Company (OOC) is the investment arm of the Ministry of Petroleum.
Major Oil/Gas Ports	Mina al-Fahal
Foreign Company Involvement	BP, CNPC, IPC, Itochu, Japex, Occidental, Phillips
Major Oil Fields (production, bbl/d)	Roughly 1.8 billion barrels in reserves are located in the large northern structure containing the Yibal, Natih, Fahud, al-Huwaisah, Lekhwair, and Shibkah fields. Other key fields are the southern Marmul and Nimr fields as well as Occidental's 120-million barrel Safah field and the estimated 400-million barrel Amal Eastern High field, which contains heavy crude oil.
Major Refineries (capacity, bbl/d)	Mina al-Fahal (85,000 bbl/d)

* The total energy consumption statistic includes petroleum, dry natural gas, coal, net hydro, nuclear, geothermal, solar, wind, wood and waste electric power. The renewable energy consumption statistic is based on International Energy Agency (IEA) data and includes hydropower, solar, wind, tide, geothermal, solid biomass and animal products, biomass gas and liquids, industrial and municipal wastes. Sectoral shares of energy consumption and carbon emissions are also based on IEA data.
**GDP figures from OECD estimates based on purchasing power parity (PPP) exchange rates.

Links

EIA Links

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Sources

A PS Review of Gas Market Trends
A PS Review of Oil Market Trends
CIA World Factbook
Economi st Intelligence Unit ViewsWire
Factiva News Service
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Middle East Economic Digest (MEED)
Oil and Gas Journal; Petroleum Economist
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Contact Info

Charles Esser
202-586-6120
charles.esser@eia.doe.gov